

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T3, 2017/2018

BFM7094 - FINANCIAL MARKET
(MBA Full Time)

6 JUNE 2018
9.00 a.m. -12.00 p.m.
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of **THREE (3)** pages including this cover page.
2. There are **FOUR (4)** questions. Answer **ALL** questions.
3. Please write all your answers in the Answer Booklets provided.

QUESTION 1

The most important player in financial markets throughout the world is central bank. In Malaysia, Bank Negara Malaysia (Central Bank) act as regulator and policy maker of monetary policy.

- a. Discuss the role of Bank Negara Malaysia (Central Bank). (12 marks)
- b. Explain Fiat money and its application to modern banking system. (5 marks)
- c. Discuss four (4) reasons why cryptocurrencies should not be recognized. (8 marks)

(Total: 25 marks)

QUESTION 2

Financial market is a market in which people trade financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect supply and demand.

- a. Is liberalization of financial markets good for economy? (6 marks)
- b. Discuss the development of global financial market. (9 marks)
- c. Bonds are sensitive to interest rates movement. Explain three (3) factors of a bond that influence interest rate. (6 marks)
- d. One year interest rates over the next six years are expected to be 8%, 4%, 6%, 7%, 8% and 7%. What are the interest rates on a two-year bond and six-year bond?

(4 marks)

(Total: 25 marks)

QUESTION 3

Many financial crises were associated with financial institution panics. As a result, government has introduced many mechanism to control investment risk. These mechanism includes private pension fund and mutual fund.

- a. Define financial crisis? (3 marks)
- b. Discuss four (4) factors of financial crisis which had occurred in the emerging market. (12 marks)

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- c. Distinguish between Public Pension (PP) and Private Retirement Scheme (PRS).
(4 marks)
- d. Prudential BSN Berhad has unfunded pension liability of RM650 million that must be paid in 20 years. If the discount rate is 7.4%, what is the present value of this liability?
(6 marks)

(Total: 25 marks)

QUESTION 4

Financial derivatives have been introduced to manage financial institution risks.

- a. Explain the following financial derivatives
i. Forward contracts
ii. Financial Futures
iii. Options
(9 marks)
- b. A banker commits to a two-year \$5,000,000 commercial loan and expects to fulfill the agreement in 30 days. The interest rate will be determined at that time. Currently, rates are 7.5% for such loans. To hedge against rates falling, the banker buys a 30-days interest rate floor with floor rate of 7.5% on a notional amount of \$10,000,000. After 30 days, actual rates fall to 7.2%. What is the expected interest income from the loan each year? How much did the option pay?
(7 marks)
- c. Explain three (3) main risks associated to financial derivatives
(9 marks)

(Total: 25 marks)

End of Paper